

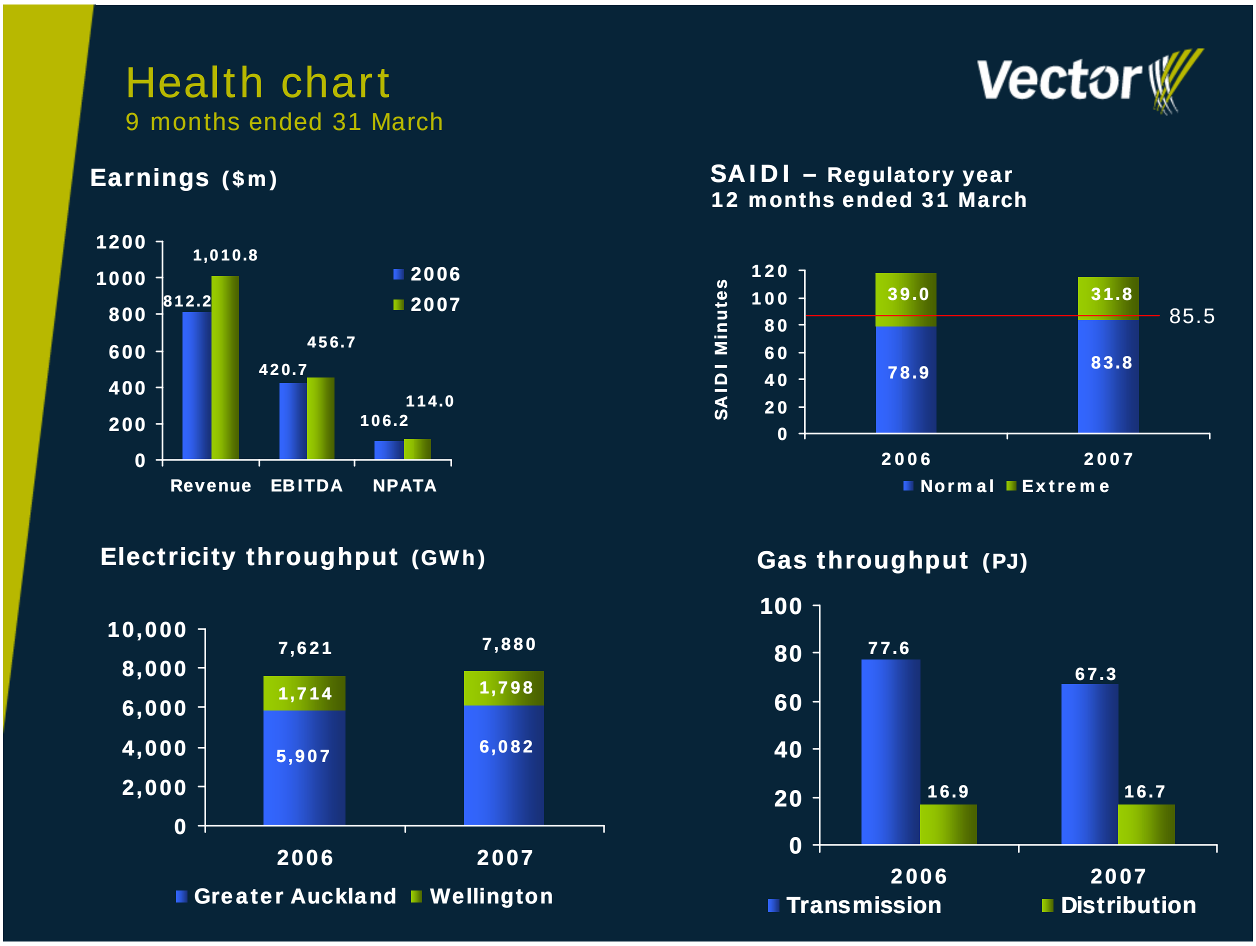


Quarterly Report

Nine months ended 31 March 2007

15 May 2007

Health Chart



Financial Performance

9 months ended **$ Millions**	**31 March 2007**	31 March 2006	% Change
Operating revenue	**1,010.8**	812.2	+24.5
Operating expenditure	**(554.1)**	(391.5)	+41.5
EBITDA	**456.7**	420.7	+8.6
Depreciation and amortisation	**(176.0)**	(160.4)	+9.7
EBIT	**280.7**	260.3	+7.8
Net interest expense	**(171.6)**	(171.2)	+0.2
Taxation	**(67.0)**	(49.3)	+35.9
Minority interests	**(2.5)**	(6.4)	-59.9
Net surplus (NPAT)	**39.6**	33.4	+18.4
Net surplus (excluding amortisation) (NPATA)	**114.0**	106.2	+7.4

Vector has recorded an after-tax surplus (NPAT) of $39.6 million for the nine months ended 31 March 2007, an 18.4% increase on the previous corresponding period (pcp). The net surplus excluding amortisation (NPATA) was 7.4% higher at $114.0 million.

The results continue to reflect significant new natural gas sales contracts undertaken during the current financial year, and the return to colder winter weather - following the warm winter of 2005 - discussed in more depth in the results for the first six months of the current 2006/07 financial year. Trading in the three-month period ended 31 March 2007 is more representative of normal electricity usage patterns.

Financial performance features in the nine-month period include:

- A 24.5% increase, to $1.0 billion, in operating revenue, due to volume and connection growth on our infrastructure networks, and almost 55% growth in natural gas sales volume;

- Earnings before interest, tax, depreciation and amortisation up 8.6% at $456.7 million after allowing for 41.5% higher operating costs of $554.1 million. The operating expense increase reflects additional gas purchases to support the higher sales volumes, increased electricity transmission costs, and increased costs associated with regulatory compliance; and

- Depreciation and amortisation rose by 9.7% to $176.0 million, primarily as a result of higher asset depreciation from the previously-reported March 2006 revaluation of our electricity networks and Auckland gas network, as well as higher goodwill amortisation following Vector's full acquisition of NGC in August 2005.

The results incorporate a full period of Vector's shared services model, implemented following the completion of the NGC acquisition in August 2005. Under the shared services model, centres of excellence in finance, strategy, regulatory and performance, IT, organisation development (including personnel), legal counsel and property operate in support of the operating business units. Accordingly, the results in the three quarters to 31 March 2007 reflect a higher level of cost at the corporate level as a result of the transfer of these activities from NGC business units to the Vector corporate reporting sector. A table providing a reconciliation of corporate costs is included on page 5 of this report.

Vector's expectation for full year net earnings expressed in the company's interim results announcement in February have now been updated. We are now confident of delivering NPAT in a range of $58 million to $63 million and NPATA in a range of $157 million to $162 million.

Operational Performance

Electricity Business

9 months ended **$ millions**	**31 March** **2007**	31 March 2006	% Change
Operating Revenue	**461.3**	416.0	+10.9
EBITDA	**276.8**	260.0	+6.5
EBIT	**196.3**	191.2	+2.6
Electricity throughput (GWh)			
- Greater Auckland (Auckland/Northern)	**6,082.3**	5,907.1	+3.0
- Wellington	**1,797.8**	1,713.7	+4.9

Electricity delivered to customers on our greater Auckland and Wellington networks increased by 3.4% to 7,880 gigawatt hours (GWh), due to the comparatively colder 2006 winter, as well as the addition of 11,266 connections to our networks since 31 March 2006. Connections as at 31 March 2007 totalled 671,678.

The electricity business delivered a 6.5% higher EBITDA contribution of $276.8 million, on 10.9% higher revenues of $461.3 million.

Vector completed the full regulatory year, ended 31 March 2007, with supply interruptions arising from normal operations slightly below the System Average Interruption Duration Index (SAIDI) threshold for supply quality.

We recorded 83.8 SAIDI minutes arising from normal operations, and a further 31.8 minutes attributable to extreme events (applying our extreme event methodology), including severe storms.

Gas Business

9 months ended $ millions	**31 March 2007**	31 March 2006	% Change
Operating Revenue [1]	**530.9**	375.6	+41.4
EBITDA [1]	**188.8**	150.7	+25.3
EBIT	**120.4**	87.6	+37.4
Natural gas throughput (PJ)			
- Transmission	**67.3**	77.6	-13.3
- Distribution	**16.7**	16.9	-1.2
Natural Gas Sales (PJ)	**40.1**	25.9	+54.8
Gas Liquids Sales (tonnes)	**80,604**	75,796	+6.3
Liquigas LPG Wholesale/Tolling (tonnes)	**85,206**	76,209	+11.8

[1] Includes intersegment revenues and expenses.

Significantly higher gas sales volumes drove a 41.4% increase in gas business revenues, which amounted to $530.9 million in the nine months ended 31 March 2007. Allowing for cost increases associated with additional product purchases to support the increased sales, the gas business EBITDA increased by 25.3% to $188.8 million.

Natural gas sales increased by 54.8% to 40.1 petajoules (PJ) as a result of new sales contracts to petrochemical producers (11.1 PJ compared with nil in the pcp) and, at 6.6 PJ, a doubling of the volume sold for electricity generation. Vector's natural gas sales to industrial and commercial customers of 14.9 PJ were approximately 2% below those in the pcp.

Total gas liquids sales (LPG and natural gasoline) increased by 6.3% to 80,604 tonnes, and included 7.6% growth in Vector's On Gas bulk and cylinder LPG business.

A reduction from 77.6 PJ to 67.3 PJ in high pressure gas transmission throughput continues to reflect the unusually high volumes transported for thermal power generation during drier conditions in the previous period. The volume movement has little effect on revenues as it is transported under fixed price arrangements.

Gas distribution network throughput was slightly lower at 16.7 PJ (pcp: 16.9 PJ), with the loss of some larger customers continuing to offset connection growth. Vector gas network connections totalled 142,037 as at 31 March 2007.

Technology Business

9 months ended **$ millions**	**31 March 2007**	31 March 2006	% Change
Operating Revenue [1]	**48.8**	46.6	+4.9
EBITDA [1]	**34.5**	30.2	+14.4
EBIT	**14.8**	6.8	+116.6

[1] Includes intersegment revenues and expenses

The technology business, comprising Vector Communications and the energy metering businesses of Vector Energy Services and Stream Information (70% owned), generated a 14.4% higher EBITDA contribution of $34.5 million.

Technology business revenues increased by 4.9% to $48.8 million, with Vector Communications opening new opportunities in the changing telecommunications market, Vector Energy Services progressing intelligent meter deployment and Stream continuing new installation growth through its multiple metering services.

Vector Communications also achieved success with a joint application with the North Shore City Council under the Government's Broadband Challenge programme.

Corporate/Other

9 months ended **$ millions**	**31 March 2007**	31 March 2006	% Change
Operating Revenue	**5.2**	3.6	+44.4
EBIT	**(50.8)**	(25.3)	+100.4 [2]

[2] See *Major Movement in EBIT by Segment* table below

As previously reported Vector implemented a shared services model following completion of the NGC acquisition in August 2005. EBIT associated with this activity in the nine months ended 31 March 2007 is therefore not fully comparable with the pcp.

Major Movements in EBIT by Segment

Nine months ended $ millions	**2006 EBIT**	**Indirect Expenditure Reallocated**	**Adjusted 2006 EBIT**	**Growth**	**Depreciation & Amortisation**	**31 March 2007 EBIT**
Electricity Business	**191.2**	**0.8**	**192.0**	**16.0**	**(11.7)**	**196.3**
Gas Business	**87.6**	**20.3**	**107.9**	**17.8**	**(5.3)**	**120.4**
Technology Business	**6.8**	**1.1**	**7.9**	**3.3**	**3.6**	**14.8**
Corporate	**(25.3)**	**(22.2)**	**(47.5)**	**(2.4)**	**(0.9)**	**(50.8)**
Total Group	**260.3**	**0.0**	**260.3**	**34.7**	**(14.3)**	**280.7**

The *Major Movements in EBIT by Segment* table (above) provides a reconciliation of the transfer of indirect overheads from, primarily, the previous NGC business units (Gas Business and Technology Business) to the Vector shared services centres.

As at 31 March 2007, Corporate EBIT of negative $50.8 million therefore compares with adjusted EBIT as at 31 March 2006 – after adjusting for reallocation to shared service centres - of negative $47.5 million.

Vector's Environmental Strategy

The reporting period saw unprecedented attention on climate change and associated environmental issues by politicians, businesses and the general public.

Under its environmental strategy, Vector will take a leading role in providing demand-side solutions which, we believe, will lead to more efficient, customer-focused energy management. All initiatives must have a sound economic basis which support New Zealand's economic and growth goals.

On 24 April 2007 we announced our intention to take a cornerstone 19.99% shareholding in NZ Windfarms Limited (NWF) by way of subscribing for $17.2 million of shares in a cash issue to be undertaken by NWF.

As at the date of this report, NWF has confirmed that it is proceeding with the $75 million cash issue and Vector's involvement is now subject only to the approval of NWF shareholders at a meeting of that company on 28 May 2007. If the cash issue and our involvement is approved by NWF shareholders at that meeting we expect to settle this transaction on 29 May 2007.

We see the investment in NWF as a significant step in our environmental strategy which includes renewable energy sources. It comes at a critical time in the context of New Zealand developing its response to climate change in a global sense.

Other Significant Events

Other significant events occurring in the three months ended 31 March 2007 included:

- The appointment of Mrs Alison Paterson to the Vector Board as an independent director on 7 March 2007. Mrs Paterson has subsequently been appointed as Chairman of the Board Audit Committee;

- Our announcement on 21 February 2007 of reset electricity line charges across our Auckland, Northern and Wellington networks, to take effect from 1 April 2007. The changes included annual pass through costs allowed under the Commerce Commission's threshold regime, as well as a rebalancing component consistent with the rebalancing programme formalised in the administrative settlement agreement accepted in principle by the Commission in October 2006; and

- The commencement in January 2007 of fibre optic cable laying for broadband services on Auckland's North Shore, following the successful joint bid by Vector Communications and North Shore City Council under the Government's Broadband Challenge programme

Following period-end, Vector welcomed the publishing of the Government's discussion document in respect of the review of Parts 4, 4a and 5 of the Commerce Act. Vector views much of the content of this document as positive, with moves to create an improved investment environment and to explore opportunities to strengthen regulatory outcomes, such as the negotiate-arbitrate model and merit review, being particularly constructive developments.